



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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NEWS RELEASE

FOR RELEASE

October 14, 2020

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Manly, Iowa, for the period July 1, 2018 through June 30, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported thirteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 11 of this report. The findings address issues such as a lack of segregation of duties, the lack of utility system reconciliations, disbursements exceeding budgeted amounts, transfers between funds are not always approved, bank reconciliations are not independently reviewed, a deficit balance exists in the Capital Projects Fund and separately maintained Fire Department funds should be included in the City's financial records and monthly and annual financial reports. Sand provided the City with recommendations to address each of the findings.

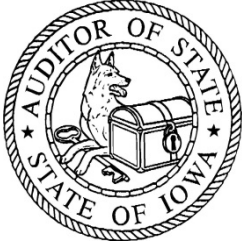
Nine of the thirteen findings discussed above are repeated from the prior year. The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the agreed-upon procedures report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/audit-reports>.

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CITY OF MANLY
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2018 THROUGH JUNE 30, 2019

City of Manly



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October 7, 2020

Officials of the City of Manly
Manly, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the agreed-upon procedures report for the City of Manly, Iowa, for the period July 1, 2018 through June 30, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Manly throughout the agreed-upon procedures engagement. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand".

Rob Sand
Auditor of State

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City of Manly

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Regan Banks	Mayor	Jan 2020
Scott Heagel	Mayor Pro tem	Jan 2020
Joe Ryan	Council Member	Jan 2020
Marc Behrends	Council Member	(Resigned June 2019)
Pete Andera (Appointed June 2019)	Council Member	Nov 2019
Mary Durner	Council Member	Jan 2022
Amy Durgin	Council Member	Jan 2022
Dee Dunbar	City Clerk/Treasurer	Indefinite
Tom Meyer	Attorney	Indefinite



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Rob Sand
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Auditor of State's Independent Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We performed the procedures below, which were established at Iowa Code Chapter 11.6, to provide oversight of Iowa cities. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Manly for the period July 1, 2018 through June 30, 2019, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Manly's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We scanned City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2019 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.

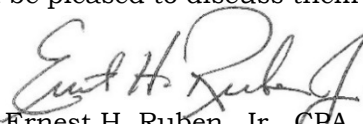
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We scanned selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We observed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We traced selected receipts for accurate accounting and consistency with the recommended COA.
13. The City had no voter approved levies.
14. We traced selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
15. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
17. We observed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting findings and recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Manly during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


Ernest H. Ruben, Jr., CPA
Director

October 7, 2020

Detailed Findings and Recommendations

City of Manly

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

(A) Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (4) Utilities – billing, collecting, depositing, posting and maintaining detailed accounts receivable records.
- (5) Disbursements – purchasing, invoice processing, check signing, check writing, reconciling and recording.
- (6) Payroll – recordkeeping, preparing and distributing.
- (7) Journal entries – preparing and recording.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations and journal entries should be documented by the signature or initials of the reviewer and the date of the review.

(B) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were reconciled throughout the year, however the reconciliations did not agree to City records and did not include a reconciliation of the utility receipts to bank deposits and month end delinquent account listing. For one utility reconciliation observed, service charges and sales tax did not agree with the monthly billing register and not all utility billing registers were retained. In addition, an independent person does not review and approve the reconciliations or adjustments made to customer accounts.

Recommendation – Procedures should be established to ensure utility reconciliations agree with City records and utility receipts agree to bank deposits. Additionally, a listing of delinquent accounts should agree with the ending balance reported on the utility reconciliation. Also, the City Council or other independent person designated by the City Council should review the utility reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations. The City should ensure all utility billing registers are retained.

City of Manly

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (C) Bank Reconciliations – While the cash and investment balances in the City’s general ledger were reconciled to bank and investment account balances throughout the year, the Employee Flex/Cafeteria Fund checking account listed on the City’s fund balance sheet did not reconcile to the bank balance at June 30, 2019 by \$1,511. The difference was due in part to employees’ flex spending disbursements not being recorded by the City. Also, the reconciliations were not reviewed by an independent person.

Additionally, the outstanding check listing at June 30, 2019 reported \$53,210 in outstanding checks, however the amount reported on the Treasurer’s Bank Cash Report was \$57,048, a difference of \$3,838.

Recommendation – The City should establish procedures to ensure all bank and investment balances, including the Employee Flex/Cafeteria Fund account, are reconciled to the City Treasurer’s report monthly. Variances, if any, should be reviewed and resolved timely. Also, an independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. Further, the City should ensure the outstanding check listing is accurate and agrees to the Treasurer’s Bank Cash Report.

- (D) Transfers – Transfers between funds were not always approved by the City Council prior to the actual transfer.

Recommendation – The City Council should approve all fund transfers prior to the actual transfer and document approval as part of the City Council meeting minutes. Effective April 17, 2019, Rule 545-2.5 of the Iowa Administrative Code requires transfers between funds be passed by resolution and include a clear statement of the reason or purpose for the transfer, the name of the affected funds and the dollar amount to be transferred.

- (E) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amounts budgeted in the capital projects function prior to the budget amendment. At June 30, 2019, disbursements exceeded the amounts budgeted in the culture and recreation, community and economic development and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (F) Financial Condition – At June 30, 2019, the City had a deficit balance of \$34,241 in the Capital Projects Fund.

Recommendation – The City should investigate alternatives to eliminate this deficit to return the fund to a sound financial condition.

- (G) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report include a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...” The 2019 Annual Financial Report (AFR) did not accurately report the ending fund balances. The ending governmental fund balance was overstated by \$4,163 in comparison to the reconciled book balances.

Recommendation – The City should ensure the Annual Financial Report receipts, disbursements, and fund balances agree with the City’s records.

City of Manly

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (H) Tax Increment Financing Interest – The City recorded interest earned on the balance of the Special Revenue, Tax Increment Financing (TIF) Fund to the General Fund rather than the Special Revenue, TIF Fund as required by 403.19(10) of the Code of Iowa.

Recommendation – The City should record interest to the Special Revenue, TIF Fund as required. Since interest receipts are available to service TIF obligations, the interest amounts recorded to the Special Revenue, TIF Fund should be decertified to the County Auditor in accordance with Chapter 403.19(6)(b) of the Code of Iowa.

- (I) Computer System – The City does not have a written disaster recovery plan for its computer system.

Recommendation – The City should develop a written disaster recovery plan.

- (J) Journal Entry Approval – Journal entries are not approved by an independent person.

Recommendation – Journal entries should be approved by an independent person and evidence of the approval should be documented by the signature or initials of the approver and the date of the approval.

- (K) Uniform Chart of Accounts – The City recorded one commercial/industrial replacement tax receipt totaling \$5,069 as property taxes rather than intergovernmental receipts.

Recommendation – The City should ensure all receipts are accurately recorded.

- (L) Park and Recreation Department and Pool Collections – Prenumbered receipts were not issued for all collections.

Recommendation – To provide additional control over collection and recording of receipts, prenumbered receipts should be issued for all collections and an initial listing of collections should be prepared. These collections should be compared to the bank deposit and the City’s accounting records by an independent person and the evidence of the review should be documented.

- (M) Manly Volunteer Firefighters Association

Background:

Chapter 364.16 of the Code of Iowa requires the City to provide for the protection of life and property against fire. This section also states in part, “A City has the same governmental immunity outside its corporate limits when providing fire protection as when operating within the corporate limits.”

Chapter 359.42 of the Code of Iowa requires townships to provide fire protection for the township and Chapter 359.43 allows the township trustees to levy an annual tax for the purpose of exercising its fire protection duties and allows the township trustees to “contract with a public or private agency under Chapter 28E of the Code of Iowa for the purpose of providing any service or system required or authorized under this section.”

City of Manly

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

Chapter 28E.4 of the Code of Iowa states, “Any public agency of this state may enter into an agreement with one or more public or private agencies for joint or cooperative action pursuant to the provisions of this chapter, including the creation of a separate entity to carry out the purpose of the agreement. Appropriate action by ordinance, resolution or otherwise pursuant to law of the governing bodies involved shall be necessary before any such agreement may enter into force.”

Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.”

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to private non-profit corporations. Article III, Section 31 of the Constitution of the State of Iowa states “... no public money or property shall be appropriated for local or private purposes, unless such appropriation, compensation or claim be allowed by two-thirds of the members elected to each branch of the General Assembly.”

The Manly Volunteer Firefighters Association was established as a 501C(3) non-profit corporation, a legally separate entity. In accordance with the Association’s Articles of Incorporation, the purpose and objectives of the corporation are to assist the City of Manly Fire Department in the execution and performance of its responsibilities to the citizens of the City and the townships served by the City’s Fire Department.

Chapter 35.16 of the City of Manly Code of Ordinances recognizes the Manly Volunteer Firefighters Association and tasks this organization with the collection and disbursement of the City of Manly Fire Department funds for operation of the Department. Accordingly, the Townships of Lincoln, Danville, Union and Lime Creek each pay their levied property taxes to the Association annually. The City of Manly does not pay the Association directly, but is responsible for paying routine expenses such as gasoline, repairs, maintenance, utilities, telephone, etc. The Association maintains two bank accounts, a checking and a savings, with balances totaling \$132,204 at June 30, 2019.

We noted the following:

- (1) A 28E agreement as described in Chapters 28E.4 and 359.42 of the Code of Iowa does not exist to allow the City and the townships to contract with a private non-profit organization.
- (2) Legally separate non-profit fire associations typically exist to support a City government in carrying out its responsibility to provide fire protection. These non-profit associations provide this support by holding fund raisers and collecting donations to help provide funds to purchase equipment and other items needed by the City to carry out its duties. Funds in these situations flow from the non-profit organization to the City and are accounted for by the City.

City of Manly

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

The arrangement the City has with the Manly Volunteer Firefighters Association to account for the collection and disbursement of the Fire Department's operating funds, and not just to support the City's Fire Department by holding fundraisers and providing funds to purchase equipment for the Fire Department is unusual and appears to violate the Iowa Constitution which prohibits providing public funds to private entities. Although the City's Code of Ordinances allows for this arrangement, an ordinance does not take precedence over the Iowa Constitution.

- (3) The City Code of Ordinances requires the Manly Volunteer Firefighters Association to conduct an annual audit of its practices no later than August 1 of each year and transmit the audit to the City Council. The Association has not conducted annual audits and therefore has not transmitted required audits to the City Council.

Recommendation – In accordance with Chapter 384.20 of the Code of Iowa and the Iowa Constitution, as well as for better accountability, financial and budgetary control and oversight over the public funds, the financial activity and balances of the Manly Fire Department's funds, including funds provided by the Townships for fire protection, should be included in the City's accounting records, monthly financial reports and the Annual Financial Reports. The activity of all the Fire Department's funds should be subject to City Council review and approval and should be included in the City's budget process. Also, a summary of each account's receipts, total disbursements and listings of claims allowed each month should be published, as required. Proper accounting of these funds in this manner negates the necessity of an annual audit by the Fire Association (since the funds will be included in the annual examination required and obtained by the City each year) and the need for a 28E agreement as discussed in Chapters 28E.4 and 359.42 of the Code of Iowa.

City of Manly

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Katherine L. Rupp, CPA, Manager
Taran E. McCusker, Staff Auditor
Vivian J. Hustad, Assistant Auditor